Institutional Pressures and International Market Orientation in SMEs:

Insights from the French Wine Industry

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ABSTRACT

In this research, we examine how external institutional pressures influence international market orientation (IMO) in small-medium sized enterprises (SMEs). We use institutional theory and insights from the international entrepreneurship literature to predict how different formal regulative pressures (from national and international sources) as well as different informal normative pressures (from distributors and end-consumers) influence IMO in SMEs. We test our hypotheses using survey data from 107 small wineries across all of the main wine-producing regions in France. The results provide support to the central assertion that it is outside pressures on decision-making – rather than an endowment of internal resources and capabilities – that influence IMO in SMEs. External regulative sources have the strongest effects with pressures on decision-making from national laws having a negative impact on IMO and those from international laws having a positive impact on IMO. We find partial support for the effect of normative pressures from distributors and end-consumers. Implications for theory and management of internationalization in small firms are discussed.

Key words: international market orientation; institutions; SMEs; wine industry; France

INTRODUCTION

Firms with an international market orientation[1] (IMO) adopt a strategic posture with an "aggressive, entrepreneurial approach to international markets" (Knight and Kim 2009: 260). The question of whether or not to adopt an IMO for a small-medium sized enterprise (SME) is a key decision in the firm's entrepreneurial evolution. It is a challenge for SMEs because international markets are full of risk and many SMEs do not have the resources and experience to deal with coordination costs associated with expanding into foreign markets (Schwens et al. 2017). However, international markets offer the prospect of opportunities that SMEs are able to exploit in order to enhance performance. Consequently, scholars in the field of international entrepreneurship have identified IMO as being important for the internationalization of SMEs and their ability to outperform in international markets (Belso-Martínez 2006; Coviello 2015; Knight and Cavusgil 2004; Nielsen and Nielsen 2011; Zou and Cavusgil 2002).

The main theoretical paradigm used by scholars to understand determinants and consequences of IMO has been the resource-based view with its emphasis on firm capabilities and experience (Dunning and Lundan 2008; Knight and Kim 2009; Kundu and Katz 2003; Suárez-Ortega 2005). In this literature, IMO is seen as part of the mind-set of the SME that is essential for building international business (IB) competences that help it compete in international markets despite its size and capability disadvantage vis-à-vis larger firms (Zou and Cavusgil 2002). While managers use experience and learning about international markets to decide whether to establish an organizational posture that focuses on international markets (Zhou, Wu, and Luo, 2007), it is this overall orientation that allows the firm to compete in foreign

[1] We adopt Knight and Kim's (2009) definition of IMO in the current study: IMO is "the extent to which the firm's *international* business activities are oriented toward customers" (Knight and Kim 2009: 262, emphasis added)

markets through the development of appropriate resources and competences (Knight and Kim, 2009).

What determines a firm's IMO? While we do not dispute the role of internal resource, capability and experience factors in determining a firm's IMO (Knight 2000), we believe that the role that external institutions play in pressuring - or coercing - an SME to adopt an IMO has been somewhat overlooked. While some empirical work has looked at home country institutional determinants of initial internationalization and actual internationalization pace of firms (Cheng and Yu 2008; Finchelstein 2017), the impact of external institutions on IMO in SMEs remains largely untouched. This gap is important to address for various reasons. Firstly, IMO matters in the case of SMEs; these are firms with limited tangible resources and IMO allows them to "nurture and structure *intangible* resources" (Knight and Kim 2009: 256, emphasis added) to use as a basis for internationalizing and performing in international markets. Researchers need to understand determinants of IMO in SMEs to gain a complete picture of what ultimately drives international performance. Secondly, extensive research in IB sees external institutions as setting "the rules of the game" through coercive, mimetic and normative mechanisms (DiMaggio and Powell 1983; Scott 1998). These rules determine strategic behaviors in international markets and institutional theory has been used extensively in IB to understand behavior in larger multinational enterprises (MNEs). Recent reflections in the international entrepreneurship field do not touch upon external institutional pressures in this sense (Coviello 2015). In fact, only a very small proportion of all work in international entrepreneurship seems to address institutions as a theme (Peiris, Akoorie, and Sinha, 2012)[2].We argue SME researchers need to understand what brings IMO in an SME about *from an institutional perspective as well as a resource-based perspective.*

[2] From an analysis of 107 articles, only 3 used an institutional approach (Peiris, Akoorie and Sinha 2012)

This extends to the role of end-consumers and distributors in shaping how foreign markets are defined and approached (Anand and Watson 2004; Cavusgil, Deligonul, and Zhang 2004; Delacour and Leca 2017; Dimitratos, Voudouris, Plakoyiannaki, and Nakos 2012; Dolbec and Fischer 2015).

We address this problem by developing a set of hypotheses on the relationships between different types of external pressures faced by an SME and the adoption of an IMO by the SME. Specifically, we examine the role of macro-level national and international laws as well as pressures from distributors and end-consumers in explaining IMO. We test our model on data from wine producing SMEs in France. We chose this context because the wine industry is particularly constrained by a wide range of external pressures (Visser and de Langen 2006). Additionally, the French wine industry has faced declining international exports in recent years, raising questions about the IMO of its producers (France AgriMer 2016). Finally, while France is our unique empirical context, there is enormous variability in terms of consumers (e.g., with low and high knowledge, those living in or out of wine regions, those consuming none to those consuming a lot of wine) as well as distribution networks (e.g., mega supermarkets, small grocers, independent retailers, specialty stores, directly at the winery, via mailing lists, online) (Vin & Société 2017). These features mean institutional pressures on firm decision-making will vary within the country and this makes the setting ideal for our study. We collected data through informal interviews and from a questionnaire survey of 107 small wine producers across France. Drawing on Knight and Kim's (2009) operationalization of IMO and capturing the effects of formal institutional pressures at national and international levels, as well as informal normative pressures from distributors and end-consumers, we are able to establish positive and negative direct effects on IMO from these sources *over and above* resource, capability and experience-based predictors.

The present study contributes to our understanding of institutions and marketing strategy within firms in three ways. Firstly, we show how institutional pressures for SMEs to adopt an IMO are present. This suggests a need for institutional pressures to be incorporated in theory of early firm internationalization more prominently than has been done hitherto. Institutional theory has been used extensively in studies of entry mode and internationalization in larger corporations, particularly in the context of emerging economies (e.g., Estrin, Meyer, Nielsen, and Nielsen 2016; Peng, Wang, and Jiang 2008). Our study suggests institutional pressures need to be considered more conspicuously as we try to understand the very early stages of international marketing in much smaller firms too. It is at this critical stage, when the firm is still small and suffering from capability gaps, that it grapples with the decision of whether it should focus its managers and employees to embrace global markets. This premise even applies to advanced economy settings, as our results demonstrate in the case of France. Secondly, we provide new evidence on how external institutions matter in this respect. We identify both positive and negative influences, as well as different effects of different types of formal (i.e., laws) and informal downstream pressures. These seemingly opposing forces present real challenges to managers of small firms contemplating how to approach international markets. The results raise fresh questions about the complex interplay between managerial cognition, limited attention and the sources of external pressures on small firms to adopt an international mindset.

LITERATURE REVIEW AND HYPOTHESES

Institutional scholars argue that the interaction between organizations and external institutions guides how firms approach international markets (North 1990; 2005; Scott 1998). Foreign investment transactions occur within an institutional environment (North 1990), which provides formal and informal constraints on how organizations operate (Dunning and Lundan 2008). On the one hand, the constraints can take the form of formal regulations. On the other, they can also include informal normative institutions (often framed in terms of social obligations, customs and cultural traditions) and cognitive institutions (how groups of people with a common interest construct social reality) (Scott 1998). Ingram and Silverman (2000) argue that public institutions apply rules to all actors – they have broad scope – while private institutions only apply to one part of some group or organization. They also argue that institutions can be centralized – with designated means of enforcing the rules – or decentralized, which are more unorganized and culturally enforced. Informal institutions – aligned with decentralized enforcement - are not written down in law but can have a strong influence on how firms think and act. As commonly noted in the literature, institutions set “the rules of the game” through coercive, mimetic and normative mechanisms. Firms that adhere to institutional “rules” (whether formal or informal) seek to legitimize themselves for such normative behavior within the economic system (DiMaggio and Powell 1983; Rodriguez, Uhlenbruck, and Eden 2005).

Institutional theory has been widely applied in international business research. While some have used institutional theory to examine the effects of home country institutions on international strategy (e.g., Deng 2009; Estrin, Meyer, Nielsen, and Nielsen 2016; Finchelstein 2017) others have looked at effects of institutions outside of the home country (Henisz and Swaminathan 2008). For example, institutions in the host country are a determinant of decisions made by a multinational enterprise (MNE) as it makes investments in the host country (e.g., Yiu and Makino 2002). Alternatively, the effect of institutional distance between home and host country (Eden and Miller 2004) and the impact of supra-national institutions on MNE international strategy (e.g., Williams, Lukoianova, and Martinez 2017) also impact entry strategy. Another stream looks at how MNE strategy and external institutions co-evolve and how the MNE can influence the evolution of institutions (Cantwell, Dunning, and Lundan 2010). This is a broad body of work that has advanced understanding of MNE behavior in international markets.

However, when it comes to the mindsets needed at the very early stages of internationalization by SMEs, and in particular, the adoption of an IMO by the organization, institutional theory has rarely been used[3]. Furthermore, literature reviews clearly identify a gap in terms of institutional explanation of IMO in the SME. For example, Peiris, Akoorie and Sinha (2012) conducted a literature review spanning twenty years of research in international entrepreneurship and found only 3 out of 107 relevant articles including the external institutional environment as a central theme. Recent reflections on born globals[4] do not account for the institutional pressures SMEs will face (Coviello 2015). Taken together, the extant literature does not provide detailed discussion of external pressure on SMEs in terms of their adoption of IMO. We believe this warrants more effort to better understand SME IMO through an institutional lens, rather than solely through an ownership-based lens. In our analysis, we apply this logic to explain SME IMO, examining two forms of institutions: formal rules (regulative pressures) and informal constraints (normative pressures) (North 1990, 2005).

Formal Regulative Pressures and SME IMO

In terms of formal regulative institutions, we can expect different effects on a SME's IMO between those that originate from the home country and those that are exerted at an international level. Formal regulative pressures originating in the home country will be public and centralized in Ingram and Silverman's (2000) terms. Being national in nature, they will not emphasize

[3] We deliberately use the word 'rarely'. Notable exceptions do exist. For instance, Cheng and Yu (2008) used a sample of Taiwanese SMEs to show how SMEs initiate their internationalization as a consequence of institutional pressures from within the home country.

[4] A company establishing international operations at or near its founding

conformity in international markets as much as the home country market. The consequences for the firm of contravening home country national laws will be felt through prosecution within the home country (e.g., Nasra and Dacin 2010). Breaking a national law will be widely-reported within the home country, will create adverse public relations and will have a negative impact on commercial performance in the home market as consumers choose to disassociate themselves with the firm. For example, the Danish listeria outbreak of spiced meat roll that killed 15 people and that was linked to unlawful hygiene practices led to the shutting down of the producer but did not materially impact non-Danish producers as the focus was national rather than on international markets (Nielsen and Wegener 1997). Thus, non-compliance with national laws leads to financial consequences (e.g., fines) levied at a national level and possible imprisonment for company owners or managers in the home country. These adverse consequences in the home country mean that if the pressures from home country national formal regulations on decision-making in the firm are high, SME managers will focus their scarce attention towards the home market and away from international markets.

Political and economic factors may spur national laws in the home country just as they may encourage domestic product consumption (Shankarmahesh, 2006). This will encourage managers in an SME to pay attention to the home country market. For example, the election of Trump as US president was expected to augment the sale of domestic products (Kaletsky, 2016). Nasra and Dacin (2010) show how the changing home country institutional environment in the United Arab Emirates (Dubai in particular) encouraged the formation of entrepreneurial businesses in Dubai. In particular, these authors are critical of how Dubai's regulative institutions inhibited international mindsets within these firms: "…some regulative aspects […] such as the preferential hiring of U.A.E. nationals should further inhibit *international* entrepreneurship" Nasra and Dacin (2010: 597) [emphasis added]. Deng (2009) noted how institutional voids in the home country – i.e., a lack of efficient market supporting institutions – will encourage the firm to become more internationally-oriented. Again, this emphasizes that when SME managers need to deal with the pressures from home country national formal institutions, they will be deterred from emphasizing international markets. Schlierer et al. (2012), in their analysis of stakeholder influence on SMEs in different European countries, note how SME owner-managers are precisely the people who will be responsible for setting an IMO in an SME. According to Schlierer et al. (2012), managing stakeholder influence in an SME has a strong ethical dimension: SME owner-managers will want to act in the right way and be in accordance with legal forces. We argue that under conditions of formal national laws putting pressure on the SME, centralized decision-making by SME managers (Cadogan et al. 2006) will be needed to deal with those laws. Also, a greater pressure at a national level will focus the attention of customers and distributors on constraints specific to the domestic market (e.g., increases in taxes or changes in labelling regulations), thus drawing managers' attention to national issues. This will detract from the firm's willingness to adopt a higher level of IMO as it will remain domestically focused in its attempts to conform in the home market.

> H_1: Ceteris paribus, the greater the pressure from home country national laws on decision-making in the SME, the lower will be the international market orientation of the SME.

Formal regulations at the international level include those that are affirmed from multi-lateral trade bodies such as the World Trade Organization (WTO), supra-national governance systems such as the European Union (EU), and industry-specific international bodies governing specific global industries. These are also public in Ingram and Silverman's (2000) terms – applying to a wide range of actors in different industries. They will also include various forms of bi-lateral agreements such as investment and trade agreements and bi-lateral investment treaties.

The crucial point about regulative institutions at an international level concerns how the firm will seek legitimacy in international markets as a consequence of the existence of the international laws (Williams, Lukoianova, and Martinez 2017). Legitimacy will be gained by the firm via building awareness within the firm of the presence and content of applicable international laws, noting how other firms respond to those laws and evaluating how the firm will need to adapt its own strategy as a consequence (Büthe and Milner 2014; Henisz 2000).

In addition, firms need to understand industry specific regulations in different countries before preparing for export and entry to foreign markets (Cheng and Yu 2008; Coeurderoy and Murray 2008). For example, the laws relative to wine labelling are different in each country (i.e., different languages, different warning labels, different serving sizes, etc.), and require wine firms to adapt their labels and sometimes even their entire packaging in order to comply across their various export markets. Given that this type of regulation will cover a range of countries, not just the home country, the firm will need to be aware of how the laws are interpreted by international suppliers and consumers, and how they will also affect any international suppliers and consumers.

Where the formal regulations are international in nature, the responses by end-consumers will also be international in nature (Mayor and Tol 2010) just as reactions by distributors will be driven by a potential reaction to perceived globalization (Siguaw, Simpson, and Baker 1998). Pressures that are then put on distributors by end-consumers will necessarily contain international characteristics. The need for an SME to be alert and respond to this will mean it will need to adopt a higher level of IMO in order to gain legitimacy amongst end-consumers, distributors and legal institutions in foreign markets. Coeurderoy and Murray (2008) showed how early internationalization of small technology firms will depend on the regulatory system for IP protection in foreign locations. Indeed, they describe the international regulatory environment as having a “major importance in determining internationalization dynamics” (Coeurderoy and Murray 2008: 682). The SME will adopt a more aggressive approach to international markets and the leaders of the firm will attempt to promulgate a culture of international thinking throughout the firm if those leaders perceive that formal international regulations are pertinent to their vision for success in international markets.

> H_2: Ceteris paribus, the greater the pressure from international laws on decision-making in the SME, the greater will be the international market orientation of the SME.

Informal Normative Pressures and SME IMO

As firms seek market access and try to sell their offerings, actors in the distribution chain between the firm and end-consumers will play an important role in how informal (non-legal) pressure on decision-making is interpreted by the firm. These kinds of pressures are decentralized and private (Ingram and Silverman, 2000); they only affect a subset of firms – such as the wine-making ones in our study – and they are enforced through social groupings in specific locations – France in our study. Firstly, distributors have a shared understanding with the firm through experience of the firm’s products, branding and technologies; distributors play an informational role in addition to a physical logistics role (Caputo and Mininno 1996). Distributors will have an understanding of market needs through feedback from end-consumers and will also be in a valuable position to interpret a range of information flows relating to customs and cultural factors from various markets germane to the firm’s product offering and its broader strategy (Caputo and Mininno 1996; Goodman and Dion 2001). Trust and commitment between manufacturers, distributors and retailers is well documented as being a source of profit and being essential to satisfy consumer needs (e.g., Cavusgil, Deligonul, and Zhang 2004; Ding, Guo, and Liu 2011;

Goodman and Dion 2001). Distributors will understand and take part in social obligations, customs and cultural traditions surrounding the firm's products, i.e., the normative institutions in the industry.

When considering international markets, SMEs that do not have an extensive overseas presence are likely to seek actors that will facilitate the opening of opportunities and distribution of the firm's products to various markets (Johanson and Vahlne 2009). Distributors will apply normative pressure because of their access to market knowledge, customs and ways of doing things and knowledge of opportunities in foreign markets that the firm has not otherwise encountered (Cavusgil, Deligonul, and Zhang, 2004; Ketokivi and Schroeder 2004; Malhotra et al. 2005; Westphal, Gulati, and Shortrell 1997). In many instances, distributors will be linked to suppliers through shared information systems and may also make use of mandated information sharing which serve as a basis for the creation of market knowledge in the supply chain (Malhotra et al. 2005). Small-sized firms, such as the ones in our study, are more likely to utilize larger and therefore more powerful distributors with access to multiple markets than using small-sized distribution firms. Such distributors themselves are motivated by profit and will seek to maximize returns on investment, they have the potential to put pressure on the SME to become more international in its outlook and find ways of exploiting untapped opportunities in international markets.

H_3: Ceteris paribus, the greater the pressure from distributors on decision-making in the SME, the greater will be the international market orientation of the SME.

Secondly, direct end-consumers also have the potential to impact the IMO of the firm, particularly when those end-consumers themselves move into foreign markets (Amal and Rocha Freitag Filho 2010). Small SMEs typically have yet to embark on a journey of internationalization or have only undertaken initial forays to export into international markets. In this situation, the body of direct end-consumers will still be home-country based. They will express their opinions on all aspects of the product mix and their shared understanding with the firm will be a result of their expertise with the firm and its product offerings in the home country. Again, end-consumers will be a part of the normative institutions in the industry, expressing social obligations, customs and cultural traditions relating to the firm's products. The firm will use a mix of processes that generate consumer knowledge (such as direct consumer interaction) and integrate consumer knowledge (such as senior management involvement) (Campbell 2003). Gaps between the firm's product offerings and consumer requirements can be addressed when managers are able to interpret market information received directly from consumers (Campbell 2003).

End-consumers will also be faced with competing offerings from other competing firms. If they consider competing firms have more attractive offerings, the focal firm will feel pressure through its direct links with those end-consumers. Managerial attention to issues arising within this body of consumers will distract managers away from international markets, pre-occupying them with how to counter international firms competing in the home country national market (Ruzzier, Hisrich and Antoncic 2006). In the case of the SME, this will consume already limited attention of managers and will reduce the opportunities for managers to adopt an aggressive approach towards international markets. They will be less inclined to devote time to export and this may even constitute an export barrier, a management attitude shown to have a negative impact on export development (Suárez-Ortega 2005). Such pressures are informal and normative, in the sense that they relate to expected norms of behavior by the firm, rather than written constitutions and laws (North 1990; Scott 1998).

H$_4$: Ceteris paribus, the greater the pressure from home country end-consumers on decision-making in the SME, the lower will be the international market orientation of the SME.

METHODOLOGY

Preliminary Interviews: Does External Pressure Matter to IMO?

We first conducted informal interviews with small wineries located in Champagne (France) to explore our constructs of interest. The objective with these interviews was to get a sense of how IMO arises in these firms and whether external institutional pressure matters for their IMO. We selected Champagne as a region because it has been exporting since the early 19th century yet remains a highly fragmented industry, with many small and large producers who do not necessarily opt for the same international marketing approach. Importantly, only about 50% of all champagne wines produced are exported, suggesting that winemakers do not systematically opt for exporting as a means to develop their business (CIVC 2018). Six heterogeneous firms were contacted and all agreed to be interviewed. The sample details can be found in Table 1.

Insert Table 1 here

The interviews lasted approximately 45 minutes each. While all firms differed in terms of history, size, number of employees, product lines, they had all contemplated international markets, mostly via the use of distributing importers, and they were all SMEs, less than 250 employees. We found slight variations in the process of formulating an IMO and perceptions of how external institutional pressures laws mattered. While Firm 1 did not export, it saw the potential for internationalization but was also very focused on home country end-consumers and their needs:

> We are constantly adapting to changing consumer segments and consumer occasions to consume. We change our design and their distribution networks in order to stay attractive.

Interviewees also discussed a certain dependence on national institutions in determining their intentions and the possibility to go abroad. For example, Firm 2 told us:

> We don't use different distribution channels in the national or international markets…we mostly rely on the [home country] regional association to help us find exporters.

Firm 6 had to wait in order to commercialize its products (at home and abroad) due to national legislation:

> The legislation means that when I started my business, I knew that for 2010 and 2011 I wouldn't have anything to sell [abroad] as I had to wait for the 2010 harvest to age 15 months.

Importantly, we noted that international laws and markets represented a defining pressure, either because of international markets' potential for sales volume or because international markets were often legislatively complicated. Firm 1 stated:

> We do not sell a lot abroad but we will try to develop this because we see the market potential.

Also, the interplay between foreign distributors and the SME's limited managerial attention was conspicuous in the data. According to Firm 4:

> The history of the brand is about selling in export. Exporters are always our choice, and we pick those who respect and understand our strategy. It's not profitable for us to seek out new markets. We wait until partners come to us. This happened last week, a guy from Uruguay called because he wants to distribute us there. I would never have the time to go myself to Uruguay and find that guy!

In addition, Firm 5 noted:

> The more we expand our global distribution network, the more complicated the rules and regulations are that we have to take into consideration. This makes

> packaging a complicated issue – we need to adapt the packaging in the language, based on the warning labels.

And Firm 6 noted:

> I don't work with the USA, although I have been asked to by an importer. The legislation is too complicated, it's too much work, and I probably don't have enough supply to sell them. So, it's not worth the effort.

The results of these interviews provide an initial understanding of the importance of external pressures on IMO. Interestingly, the interviews suggested the higher the national legislative pressures, the more stifled the IMO. Overall, IMO occurs somewhat organically and clearly under the constraints of external institutions. For many of the firms, even those established centuries ago, IMO remains a secondary business activity, after quality and growing the business domestically. However, we also note that the main objectives of most SMEs are first to satisfy consumer desires (be they domestic or international), either through packaging or in terms of providing supply to demanding markets. As well, while international laws and regulations can be complicated and even penalizing in terms of adopting an IMO, the prospect and value of international consumers seems to have an influence on IMO.

Main Study: Testing the Hypotheses

We conducted a questionnaire survey of small wine producers in France in order to build a dataset to test our hypotheses. The global wine industry as a whole is estimated at $304 billion with over 1 million different brands (Mordor Intelligence 2017). Producers, retailers, exporters, distributors and consumers collectively work together to ensure the flow of wine on global markets. This makes the wine industry suitable to test our model in light of the inter-connected and often multifarious formal and informal pressures emanating from different sources.

This design also allows us to control for home country and industry, factors that have been shown to influence the business models adopted by SMEs (Child et al. 2017). Given our interest is on how institutional pressures that influence decision making in the firm will ultimately determine the firm's IMO we achieve variation in the data capturing this relationship despite the data being from one country and one industry. There is enormous variability within the French wine industry because it is regulated at the national level not only by overarching national laws (e.g., the Evin law regulating alcohol related advertising) but also by regional laws that are specific to each region. There are 19 interprofessional committees for wines in France, each one defending a specific region (Intervin, 2019). Each region has its own regulations regarding winemaking, authorized grape varieties, packaging and traditions. For example, the Clavelin bottle is unique to the Jura yellow wine, the thin and narrow bottles are used for Alsatian wines, and only seven grapes are authorized to be grown and harvested to make champagne. Furthermore, the appellation system in France (INAO - the French national institute for origin and quality) clearly delineates table wines from premier and grand cru, suggesting there is hierarchy in terms of quality and thus of market attractiveness. For example, most consumers in the world know of - or have heard of - champagne but fewer know about crémant de la Loire; it is certainly easier to export champagne. Thus, while the global wine industry is multi-tiered, internationally-driven, and complex, it is especially so in France. Overall, we expect different wine-producing SMEs even within France to view and respond to the same pressures in different ways.

France is also an interesting context to conduct this study from a managerial and industrial policy perspective. France is the nation most associated to wine (Guy 2003), the birthplace of 84% of the world's most recognized wine brands (Mordor Intelligence 2017) and where wine has long been considered a national symbol (Barthes 1957). In 2010, for the first time in history, France had its title of world's largest wine producing country usurped by Italy and in 2013 it was third behind Italy and Spain in terms of exporting (OIV 2015). According to recent figures from the International Organization of Vine and Wine, three countries produce the most amounts of grapes destined for winemaking: Spain, France, and Italy (OIV 2017). Since 2012, Spain has increased their exports by 10.6% whereas France has reduced its exports by 6.3% and Italy has decreased its exports by 2.8%. Furthermore, wine consumption in France is decreasing (estimated at 13% decrease between 2011 and 2020 (Denig, 2017)). We expect wineries in France to be open to seeking out new foreign markets in order to counterbalance the strong domestic competition coupled with decreased home market potential.

One hundred and fifty wine companies defined as small-medium sized enterprises (SMEs) according to the EU definition – i.e., size of less than 250 employees - were randomly selected based on a search for wineries in France. This target was selected in order to stratify 7-10 different wineries per wine region (there were 19 wine interprofessions). We contacted the companies by phone and asked them to participate in the telephone survey. Data was collected by the interviewer communicating with the company in French. Of the 150 firms contacted, 107 agreed to participate in the survey and provided data for all of our variables of interest. This high response rate (71%) was due to the direct calling approach and the advantage we had in our ability to communicate with the respondents in French. This enabled us to share the purpose of the study and provide clarity on queries as they arose. Only winery managers or directors were interviewed for the survey. The average survey took 45 minutes to administer and, while it was more time-consuming and costly than a web-based survey (Wright, 2005), we were satisfied with the quality of the responses and the stratification of 6 firms per wine region on average.

Descriptive analyses revealed that 86% of the observations were family owned, there were 9.98 export markets on average, 267 380 bottles produced in 2015 on average, and 68% of sales were to the local market (France). The mean size in terms of full time employees was 8.22 plus an average of 10.69 part-time employees (which include seasonal employees needed during specific periods of the year, such as harvest or part-time salesmen). The regional breakdown of was: Bordeaux: 21.5%, Languedoc: 20.6%, Loire: 16.8%, Champagne: 11.2%, Provence: 8.4%, Alsace: 7.5%, Rhône: 5.6%, Sud-Ouest: 4.7%, and Burgundy: 3.7%. These descriptive statistics provide a profile that is common in the French wine industry. For example, the average number of hectares/firm in our sample was 42.9 whereas the national average is 38.2 (France AgriMer 2006). As such we are confident in the representativeness of the sample.

International market orientation of the firm – an organizational level construct - was measured using eight of the eleven items on Knight and Kim’s (2009) validated international orientation scale – we selected the items specifically relevant to international markets. All of these were applied with a seven-point Likert scale. The items used were: (1) top management tends to see the world, not just France, as our firm's marketplace, (2) the prevailing organizational culture at our firm is conducive to active exploration of new business opportunities abroad, (3) management continuously communicates its mission to succeed in international markets to firm employees, (4) management develops human and other resources for achieving goals in international markets, (5) our top management is experienced in international business, (6) management communicates information throughout the firm regarding successful and unsuccessful consumer experiences abroad, (7) top management is willing to go to great lengths to make our products succeed in foreign markets, and (8) vision and drive of top management are important in our decision to enter foreign markets. The Cronbach’s α was 0.96, comfortably exceeding the 0.7 level recommended by Nunnally (1978).

We captured pressure on business management decisions firstly with a specific focus on formal regulatory pressures through (1) international laws and (2) national laws, and then informal pressures from (3) distributors and (4) end-consumers. For each of these a single item was used on a seven-point Likert scale where 1 = Little influence; "have a good deal of choice in the amount of attention I pay and the response I make to this stakeholder" and 7 = extensive influence; "I am forced to pay attention to and respond appropriately to this stakeholder"[5]. The regulatory items captured the extent to which international and national level institutions could impose restrictions, conditions and enforcement of formal regulations. This was explained by the interviewer to the respondents during the data collection process. The most prominent example of an international regulatory body for the wine industry in France would be the European Union. Examples of national level regulatory bodies in France are the INAO, and the Evin law that regulates how wine is marketed and promoted in France. Because our operationalization is focused on the extent to which the firm feels it needs to pay attention to – and respond to – the external pressure, we do not believe our analysis suffers from an ecological, or level, fallacy (Robinson, 1950).

We used seven control variables that had the potential to influence IMO in the sampled companies. We controlled for location being in the northern (versus southern) part of wine growing areas in France. Areas up to and including Bordeaux, Bergerac and Rhône were classified as the southern part and those including and north of Beaujolais in the north. This classification was considered essential as most wine is produced in the southern regions of France (Languedoc, Aquitaine and Provence-Alpes-Côtes-d'Azur are the top three producing wine regions (Vin & Société 2017) and more likely to export due to their higher volumes). A t-test on

[5] Single-item measures were used here for two reasons: the first in order to reduce response fatigue, and the second because the concepts were concrete enough in the minds of respondents to be reliably predictive with single-item measures (Bergkvist and Rossiter 2007).

this revealed a statistical significance in favor of southern companies having a higher IMO (mean for southern observations = 4.96, mean for northern observations = 3.97, t=2.87).

We then included a number of control variables capturing the resource and capability base of the firm (Dunning and Lundan 2008; Knight and Kim 2009; Kundu and Katz 2003; Suárez-Ortega 2005); accounting for whether the company owned their own winery and owned their own vineyards. It is possible for wine firms to make their wines without owning land, as they may purchase grapes, pressed juice or even fermented juice and bottles from other firms. Likewise, some wine firms have vineyards but do not have a winery or do not make their own wines. Some sell all of their harvest and others make their wines in a cooperative winery. As such, not all wine firms own vineyards and not all firms with vineyards have a winery. As some of the firms already exported to overseas and this experience has the potential to determine their IMO (Nielsen and Nielsen 2011; Suárez-Ortega 2005), we controlled for whether the company had international experience with a dichotomous variable. International experience was defined as having export markets. We controlled for whether the company was a family business, postulating that these might be less aggressive in their IMO due to resource constraints of long-held traditions with the family for serving local markets (Fernández and Nieto 2005). However, French family businesses in wine are noted as being more successful than non-family wine businesses (Bresciani et al. 2016), which may in part be linked to their IMO. Finally, we controlled for both the age of the company (log transformed) and the size of the company in terms of hectares of land farmed for grapes (also log transformed) potential determinants of experience and international marketing capabilities (Child et al. 2017; Zhou, Wu, and Barnes 2012).

We used a number of checks to establish confidence in the quality of our data. Firstly, bi-variate correlations were used to examine associations between the variables of interest. As reported below, this allowed us to establish confidence in the representativeness of the sample.

Alongside examination of variance inflation factors (VIF) in the regression models, the correlations also supported a lack of multi-collinearity in the models; there were no extremely high bi-variate correlations and the VIF scores were acceptable. Secondly, a Harman's single factor test (Podsakoff and Organ, 1986) revealed a six-factor solution with, importantly, all eight IMO items loading on one factor having 36.73% of the variance, i.e., less than 50% of the total variance. This exploratory factor analysis (EFA) is a widely-used way of checking for common method variance, i.e., the chance that by using a single source a correlation among the variables will be generated. This suggests common method variance is not an issue in our data. We also took measures to ensure respondents would answer honestly, guaranteeing their confidentiality, and did not share with them the model specification in advance in order to avoid respondent anticipation bias. Our approach is consistent with many of the seminal works on international orientation that also collect questionnaire survey data from the same source (e.g., Knight and Cavusgil, 2004) when establishing scales. For the main tests we used linear regression models including all control variables and separate models for each individual effect as well as a combined model for all direct effects. We also ran robustness tests using the percentage of the firm's sales to foreign markets in two recent years as an alternative proxy for IMO. In our data, as expected, these correlated strongly ($r = 0.58$ and $r = 0.61$ between IMO and export sales in 2010 and 2015 respectively). Finally, because of the possibility that external institutional pressures are not always exogenous, we ran a 2SLS instrumental variable test for robustness. We used three items capturing innovation-centricity, taking on novelty and risk and having "bold" attitudes to general decision making (not necessarily related to international markets) as instruments for the formal institutional pressures. For the informal pressures, we used items for taking initiative and adopting a competitive posture. These entrepreneurial firm level factors could affect IMO through the external institutional pressures because they could make the firm more sensitive to those external pressures (Stenholm, Acs and Wuebker, 2013).

RESULTS

Table 2 shows the bi-variate correlations between variables of interest. We note that IMO is positively associated with international laws ($r=0.40$, $p<0.001$) and pressure from distributors ($r=0.26$, $p<0.01$). It is also positively correlated with agricultural size ($r=0.20$, $p<0.05$) and winery status ($r=0.25$, $p<0.01$). As expected family-owned firms were less internationally-oriented ($r=-0.18$, $p<0.1$) and were less likely to be internationally-oriented the further north they were located ($r=-0.27$, $p<0.01$). We note other correlations that confirm the validity of our dataset. For instance, pressures from end-consumers and distributors are highly correlated ($r=0.59$, $p<0.001$), which makes sense as they form a tight-knit part of the market access channel. Larger firms in terms of agricultural area felt pressures from distributors and end-consumers ($r=0.36$, $p<0.001$ and $r=0.39$, $p<0.001$ respectively), consistent with their market status as larger volume suppliers. Age is also correlated with size ($r=0.19$, $p<0.05$) and family-owned firms tend to be in the north ($r=0.27$, $p<0.01$). Overall, this pattern of coefficients provides confidence that our sample is representative of SME wine producers in France.

Regression models to test the direct effects of Hypotheses 1 to 4 are shown in Table 3. All VIF scores are acceptable and we do not expect multi-collinearity to affect how we interpret the results. Model 1 shows the effects of all control variables entered. North / south and winery flags have expected signs (negative and positive respectively) although not significant in all models. Family ownership is consistently negative but only significant at the 10% level in the final model. When entered alone (Models 2, 3, 5 and 6), only pressure from international laws has a significant impact on IMO. All other independent variables have the correct signs. When entered in blocks of formal pressures versus informal pressures (Models 4 and 7), pressures from national and international laws are as expected, whereas the informal pressures do not achieve significance. The best fitting model and the one that explains the greatest variance in the dependent variable is Model 8, with all independent variables entered. Here we see significance on all coefficients although only at the 10% level for the informal pressures from distributors and end-consumers. All signs in Model 8 are as expected. Table 4 shows the results of robustness tests. The same profile of coefficients emerges. Pressures from international laws and distributors have positive and significant effects on sales to foreign markets. Pressures from national laws has a negative impact. Informal pressures from end-consumers is not significant. In sum, we find broad support for the direct effects hypotheses and this is strongest for pressures from international laws and weakest for pressures from end-consumers (only significant in Model 8, Table 3). The variance explained in Model 8 (Table 3) from formal and informal pressures on management decision making is greater that the variance explained from all of the seven control variables. Model 9 shows the result for all independent variables but with only one of the resource-based control variables included, namely international experience. We might expect this to have the strongest effect on IMO as it talks directly to learning from foreign markets (Nielsen and Nielsen 2011; Suárez-Ortega 2005). However, the correlation (Table 2) is not significant, and the regression effect in Model 9 is also not significant. Model 9 shows the same pattern of coefficients for the institutional pressures. Finally, the 2SLS instrumental variable tests all provided support (national laws, negative ($p=0.020$); international laws, positive ($p=0.000$); distributors, positive ($p=0.039$); end-customers, negative ($p=0.056$)). Post-estimation Durbin and Wu-Hausman tests were significant, supporting our choice of instruments. Overall, the findings provide support to our central assertion that external institutional pressures are a prime determinant of SME IMO, over and above ownership and experience effects.

Insert Tables 1 - 3 here

DISCUSSION

The present study was motivated by an observation that studies of international market orientation (IMO) in SMEs have largely avoided using an external institutional lens. They have instead mostly centered on what is perhaps a more natural tendency towards explaining IMO through internal resource, capability and experience-based views. As Peiris, Akoorie and Sinha (2012) and other reviews of the international entrepreneurship literature have showed (Coviello 2015), little attention has been paid to the role of institutional pressures in constraining or enabling the organizational mindset at the initial phase of internationalization of the SME. There have been some notable exceptions to this (Cheng and Yu 2008; Finchelstein 2017) but work in this vein is outweighed by resource-based thinking (Child et al. 2017; Knight 2000; Knight and Kim 2009; Kundu and Katz 2003; Nielsen and Nielsen 2011; Schwens et al. 2017; Suárez-Ortega 2005). Our study using data from small wine producing SMEs in France shows that, even after accounting for a range of ownership effects and firm resources (including ownership of winery, hectares of vine-growing land, family ownership, and age), pressures on management decision making from both formal and informal institutions do matter to the propensity of the SME to adopt an IMO. While the strongest effect is with international formal laws, we also see a negative effect of national laws, and partial support for a positive effect of pressures from distributors, and a negative effect of pressures from end-consumers.

The first area of contribution of the study is to show how different institutional pressures on the firm’s decision-making influence its IMO in different ways. We concur with Cheng and

Yu (2008) that theory of small-firm (not necessarily young firm) internationalization needs to account for institutional pressure as much as it does for resource, capability and experience effects. Given how institutional theory has been so widely applied in studies of international strategy of much larger MNEs – especially as this pertains to entry strategy decisions (Estrin, Meyer, Nielsen, and Nielsen 2016; Finchelstein 2017; Williams and Martinez, 2012) – we think it is amiss for our understanding of dynamics at the very early stages of firm internationalization to ignore different types of external institutional effects. Relatedly, institutions have been used widely in studies of MNEs in emerging economies (e.g., Deng 2009; Estrin, Meyer, Nielsen, and Nielsen, 2016; Peng, Wang, and Jiang 2008). Our study is based in one of the world's most advanced countries, and also in a country with considerable experience, history and notoriety within the examined industry and shows the power that institutional forces can have on the mindsets of small firms as they contemplate the prospect of internationalizing into new markets. In other words, the use of external pressures on management decisions in international marketing is not just something that needs to be considered in situations of weak or turbulent institutions, or, for that matter only for larger more established international firms engaging in foreign direct investment (FDI).

Secondly, our study sheds light on how external institutional pressure matters. We show there are likely to be some pressures that coerce the firm towards adopting an IMO, and at the same time there are others that coerce the firm away from an IMO. Some of these will be formal, regulative in nature. Others will be informal, normative in nature, emanating from downstream distributors and end-consumers. This seemingly opposing set of forces is an important insight as it adds to our understanding of just how difficult it is for managers of small firms to grapple with the decision of how to approach international markets, not just because of capability deficit as commonly highlighted in the literature (Knight and Cavusgil 2004; Zou and Cavusgil 2002) but also because of conflicting external pressures relating to whether the firm will conform and establish legitimacy in the eyes of different types of stakeholders by adopting an IMO. In our sample, the majority of the observations were small family-run businesses. We expect the cognitive frameworks used by the strategy-makers in these types of businesses will interact with the different sources of external institutional pressure as they contemplate adopting an international mindset. What is interesting is that these cognitions will be challenged by opposing forces to change the way they think about international markets; a tension that perhaps is even more profound in a climate of limited attention attributable to the size and nature of the firm.

The findings have important insights for managers of SMEs. Firstly, for managers and owners of small-sized wine producing companies in France (and similar domestic environments), the results suggest the following. End-consumers and distributors are not just powerful in terms of their potential to generate profits from the firm, they also influence how the firm adopts an IMO. This is interesting and has been overlooked in prior literature. It is tempting to focus attention on the short-term profit motive when adhering to pressures from end-consumers and distributors, without thinking about how such pressure may constitute an 'IMO trap', discouraging the establishment of an alternative mentality within the SME that has longer-term ramifications. When international laws are powerful and influential enough, they can lead to a response that avoids the 'IMO trap', whereby end-consumers can - through pressures on distributors - encourage firms to consider adopting an IMO. Alternatively, when national laws are stronger, consumers are less influential and less likely to push their requirements up through distributors. Anecdotally, in France the powerful Evin law limits wine advertising and marketing, thus making it more difficult for firms to pique consumers' interest and guide their wine choices. Rather, it is the distributors who are more likely to determine the market offering and advertise wine via their shelving and in-store promotions.

Secondly, for SMEs in general our study highlights the need for managers to think beyond resource, capability and experience logics when deciding on whether to be more aggressive towards international markets. While capability gaps clearly matter to whether an IMO is viable (we see positive effects of winery ownership on IMO in most models), managers should be sensitive to how external pressures from formal regulative and informal sources will influence the firm's compliance and legitimacy-seeking efforts. As a precursor to eventual expansion into international markets, the timing and the degree of becoming more internationally-oriented will indeed have implications for how scarce resources are deployed. Our study suggests these decisions should be tuned into the institutional forces impinging on the firm at this crucial point in its evolution.

Despite these implications, there are limitations of the current study. Firstly, we only collected our data in one country, France. While we were successful in obtaining representative data across all major wine-growing regions in France, there is the possibility that perceptions on the variables of interest would be different in other wine-growing parts of the world. Secondly, our study has a specific-sector focus. Some have called for more research on a sectoral basis and we do provide important insight into the wine producing industry as far as the early stages of internationalization of firms in the industry is concerned. However, we need to be careful not to generalize to other industries – such as high-tech and service industries - without due consideration of the differences between those industries in terms of external sources of pressure that have the potential to impact IMO. Thirdly, while we used a large part of an established scale for IMO (with a strong internal reliability), we did not look at the pattern of actual early internationalization moves. This might have included direct exporting, opening sales offices abroad, equity joint ventures and so forth. Fourthly, we considered four areas of external institutional pressure, highlighting the difference between formal and informal types, and within those categories, between those that can have a positive impact on IMO, and those that can have a negative impact on IMO. There are other institutional forces not included in the analysis that future work can delve into. Finally, we did not look into the consequences and outcomes of early stage internationalization and IMO of the SME. This has been highlighted strongly in prior research (Knight and Kim 2009; Nielsen and Nielsen 2011), but was not the focus for us.

Future research can build on this study and extend the small but growing literature on institutional determinants of international orientation and early phase of internationalization in SMEs. Work can do this by digging more deeply into the question of how external institutions matter. Future work could look more closely at how external institutional pressures interlock and interact in driving how SMEs become more international in their outlook. We hope our study can be used by researchers interested in broadening out the analysis of antecedents of IMO and early stage internationalization.

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Table 1: Informal Interviews, Firm Demographics

Firm	Type of Business	Year Established	Number of Employees	Size (hectares)
1	Cooperative	1940	15-20	100
2	Winegrower	1990	2	3
3	House	1798	25	28
4	House	1872	8	22
5	House	1776	160	360
6	Winegrower	2010	2	2.1

Table 2. Correlation matrix (n=107)

	1	2	3	4	5	6	7	8	9	10	11	12
IMO 1												
National laws 2	-0.03											
International laws 3	0.40***	0.52***										
Distributors 4	0.26**	0.05	0.11									
End-consumers 5	0.09	0.18+	0.21*	0.59***								
North / south 6	-0.27**	-0.10	-0.24**	-0.48***	-0.45***							
Winery 7	0.25**	0.10	0.26**	0.16	0.06	-0.14						
Vineyard 8	0.07	0.11	0.03	-0.02	0.03	0.11	-0.03					
International exp 9	-0.02	-0.15	-0.18+	0.06	0.03	0.23**	0.08	0.06				
Family owned 10	-0.18+	0.05	0.06	-0.30**	-0.17+	0.27**	0.06	-0.06	-0.07			
Age (ln) 11	-0.05	0.002	-0.09	-0.17+	0.09	0.27**	0.16	0.18+	0.17+	0.23*		
Hectares (ln) 12	0.20*	0.07	0.11	0.36***	0.39***	-0.30***	0.32***	0.10	0.10	-0.14	0.19*	
Mean	4.57	5.88	4.93	3.78	5.36	0.39	0.96	0.98	0.14	0.86	3.66	3.33
Standard deviation	1.80	1.70	2.27	1.94	2.02	0.49	0.19	0.14	0.35	0.35	0.97	0.92
Min	1	1	1	1	1	0	0	0	0	0	1.10	1.25
Max	7	7	7	7	7	1	1	1	1	1	6.63	5.7

***p<0.001; **p<0.01; *p<0.05; +p<0.1

Table 3. Direct effects regression models (robust standard errors in parenthesis) (n=107)

	Expectation	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9
Control variables:										
North / south flag		-0.69+	-0.71+	-0.45	-0.42	-0.53	-0.80+	-0.69+	-0.45	-0.51
		(0.39)	(0.38)	(0.35)	(0.35)	(0.40)	(0.43)	(0.41)	(0.36)	(0.35)
Winery flag		2.07**	2.15**	1.27*	1.16*	2.02**	2.00**	1.84*	0.78	
		(0.74)	(0.72)	(0.62)	(0.55)	(0.70)	(0.75)	(0.71)	(0.60)	
Vineyard flag		1.17	1.33	0.78	1.18	1.15	1.18	1.16	1.13	
		(1.43)	(1.27)	(1.99)	(1.63)	(1.52)	(1.38)	(1.45)	(1.70)	
International exp.		-0.02	-0.09	0.22	0.10	-0.10	0.01	-0.08	0.08	0.30
		(0.51)	(0.51)	(0.48)	(0.44)	(0.51)	(0.50)	(0.49)	(0.43)	(0.44)
Family owned flag		-0.65	-0.62	-0.86*	-0.84*	-0.58	-0.67	-0.56	-0.75+	
		(0.46)	(0.47)	(0.40)	(0.39)	(0.48)	(0.46)	(0.49)	(0.40)	
Age (ln)		-0.06	-0.06	0.01	0.03	-0.03	-0.04	0.03	0.15	
		(0.17)	(0.17)	(0.16)	(0.15)	(0.17)	(0.17)	(0.18)	(0.17)	
Hectares (ln)		0.11	0.11	0.10	0.11	0.06	0.14	0.09	0.11	
		(0.17)	(0.17)	(0.16)	(0.15)	(0.18)	(0.18)	(0.18)	(0.15)	
Institutional pressure:										
National laws	H1 (-)		-0.09		-0.35**				-0.34**	-0.32*
			(0.09)		(0.12)				(0.12)	(0.13)
International laws	H2 (+)			0.27**	0.41***				0.43***	0.43***
				(0.09)	(0.11)				(0.11)	(0.10)
Distributors	H3 (+)					0.11		0.17	0.20+	0.23*
						(0.10)		(0.14)	(0.11)	(0.10)
End-consumers	H4 (-)						-0.06	-0.13	-0.18+	-0.16 (p=0.11)
							(0.10)	(0.12)	(0.11)	(0.09)
Constant		2.11	2.42	1.76	2.71	1.74	2.36	2.07	2.69	4.48
R2		0.15	0.15	0.25	0.33	0.09	0.15	0.17	0.36	0.31
F		4.27***	4.13***	8.39***	11.69***	3.81***	3.81***	4.29***	10.26***	10.39***
Max. VIF		1.22	1.21	1.24	1.30	1.30	1.31	1.44	1.92	1.71

***p<0.001; **p<0.01; *p<0.05; +p<0.1

Table 4. Robustness tests using export sales

	Expectation	Percentage sold in export markets 2010 (n=88)	Percentage sold in export markets 2015 (n=93)
Control variables:			
North / south flag		-4.68	-3.20
		(9.18)	(7.41)
Winery flag		-22.39	-25.62
		(19.17)	(18.26)
Vineyard flag		10.44	12.70
		(14.55)	(11.38)
International exp.		2.26	-1.94
		(12.57)	(10.55)
Family owned flag		-6.78	-12.51
		(9.80)	(8.33)
Age (ln)		8.55*	11.40***
		(3.41)	(2.56)
Hectares (ln)		3.58	3.91
		(3.79)	(3.08)
Institutional pressure:			
National laws	H1 (-)	-4.47+	-4.91*
		(2.44)	(1.92)
International laws	H2 (+)	3.63*	5.24***
		(1.69)	(1.40)
Distributors	H3 (+)	4.29*	4.29**
		(1.97)	(1.42)
End-consumers	H4 (-)	-1.71	-2.46
		(1.97)	(1.75)
Constant		5.13	25.10
		(24.4)	(22.91)
R2		0.22	0.31
F		2.02*	3.31***
Max. VIF		2.13	2.10

***p<0.001; **p<0.01; *p<0.05; +p<0.1